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UNCLAS ANKARA 000854

SIPDIS

SENSITIVE

STATE FOR E, EB/IFD/OMA, EUR/SE; AND NEA/NGA
TREASURY FOR OASIA - JLEICTHER AND MMILLS
NSC FOR MBRYZA AND TMCKIBBEN

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SUBJECT: IRAQI DEBT TO TURKEY

REF: STATE 26336

1. (Sbu) Summary: In meetings with Central Bank and MFA officials, econoffs gathered preliminary information on Iraqi debt to Turkey. These officials put the debt at USD 1.3 billion, almost entirely owed by the Central Bank of Iraq to its Turkish counterpart. Based on these meetings, Turkey does not yet appear to have a position on a future debt treatment. End Summary.

2. (Sbu) Econoffs met February 11 with the Suha Mirahur, Director General of the Foreign Relations at the Turkish Central Bank. Also in the meeting were his deputy, Y. Bora Enhos and three other Central Bank officials, including one from the accounting department. Mirahur presented econoffs with a small file on Iraqi debt held by the Turkish Central Bank. Mirahur specified that the Central Bank was not responsible for the Government of Turkey's overall policy on Iraqi debt to Turkey, but that this debt was a special case, being mostly Central Bank to Central Bank. Though Turkey has participated in Paris Club debt negotiations, Turkish Treasury, and possibly Foreign Ministry officials participated, not the Central Bank. Mirahur even referred to the relevance of the Central Bank's autonomous status.

3. (Sbu) The file (post is faxing to EB/OMA) shows a total of USD 1.291 billion USD in claims, arising from two facilities: a) claims arising from Turkish Central Bank endorsement of promissory notes from the Iraqi government authority responsible for dam construction, and b) a 1980's-era agreement between the two central banks covering payment for Turkish exports to Iraq. On the first facility, the CB shows about USD 92.574 million of principal outstanding and about USD 17.7 million of interest. These notes were guaranteed by Rafidain Bank and covered work on the Bekhme dam by the Turkish firm Enka. The second facility, arising from Turkish exports, was a 1989 rescheduling of instalments due between 1986 and 1989. On this facility the Central Bank shows approximately USD 1.181 billion in outstanding principal (though some of this derives from interest capitalized in the 1980's) and about 1.14 million of outstanding interest. Mirahur and Enhos explained that, on the Turkish export facility, the two central banks worked out an arrangement in the 1980's whereby Iraq would ship oil to Turkish state refiner Tupras to pay for Turkish exports, after which Tupras would remit the proceeds of the oil sale to the Turkish central bank. Mirahur specified this had nothing to do with the Iraqi-Turkish "border trade" arrangement. According to Mirahur and Enhos, all trade and payments under this facility ceased in 1990 when UN sanctions were imposed.

4. (Sbu) The Central Bank officials are hopeful the Iraqis will not dispute the authenticity of the debt, since they have had correspondence as recently as 2001 from the Iraqi central bank disputing minor interest charges, and the same official who signed the Central Bank-to-Central Bank agreement, Hassan Al-Haidary, was still signing correspondence from the Iraqi Central Bank in October, 2003.

5. (Sbu) In a meeting late last year with econoffs, Akif Ayhan, an MFA official responsible for Iraqi issues, also referred to this roughly USD 1.3 billion in Iraqi debt as being Iraq's only debt to Turkey, except for a USD 10 million claim from the Turkish Ministry of Forests arising from pollution caused by Iraq. Comment: Post understands the IMF has reported a total of USD 1.6 billion of Iraqi debt to Turkey but post cannot account for the difference with Central Bank and MFA figures. End Comment.

